

DOCKET SECTION

BEFORE THE
POSTAL RATE COMMISSION

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POSTAL RATE AND FEE CHANGES, 1997

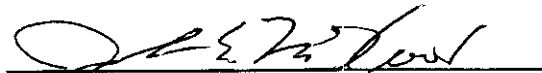
DOCKET NO. R97-1

**ANSWERS OF UNITED PARCEL SERVICE WITNESS
RALPH L. LUCIANI TO INTERROGATORIES OF
THE PARCEL SHIPPERS ASSOCIATION
(PSA/UPS-T4-1 through 5)**

(February 11, 1998)

Pursuant to the Commission's Rules of Practice, United Parcel Service ("UPS") hereby serves and files the responses of UPS witness Ralph L. Luciani to interrogatories PSA/UPS-T4-1 through 5 of the Parcel Shippers Association.

Respectfully submitted,


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**ANSWER OF UNITED PARCEL SERVICE
WITNESS LUCIANI TO INTERROGATORY OF
THE PARCEL SHIPPERS ASSOCIATION**

PSA/UPS-T4-1. On pages 22 and 23 of your testimony you criticize the Postal Service's proposed passthrough of 98% to 100% of the estimated mail processing costs savings in its proposed discounts, citing to the fact that in Docket No. R90-1 and Docket R94-1, the PRC only allowed a passthrough of 77% of the identified DBMC nontransportation cost savings. You ascribe the Commission's reasoning to the uncertainties surrounding the cost savings and state on page 23 that "the uncertainty surrounding the worksharing program has not diminished." Please document your statement that the uncertainty of DBMC cost savings has not diminished from the inception of the DBMC program.

Response to PSA/UPS-T4-1. See my response to USPS/UPS-T4-11(a).

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PSA/UPS-T4-2. In your Table 14 on page 22 of your testimony, where you list your revised parcel post worksharing avoided costs and discounts, you have assumed a 100% mail processing labor cost variability, but have only passed through 77% of the avoided cost to compute your discount. Please explain how a particular mail processing labor cost, if it is 100% variable with volume, will not be avoided 100% if that labor is not performed on a parcel that bypasses that function.

Response to PSA/UPS-T4-2. Table 14 is on page 42 of my testimony. The passthrough percentage is always applied to the attributed cost that has been identified as avoided. This is true whether mail processing variabilities are assumed to be 100% or not. The revised avoided costs contained in Table 7 on page 31 of my testimony and the revised avoided costs contained in Table 14 are attributed costs. Application of a passthrough percentage to these attributed costs is standard Commission practice.

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PSA/UPS-T4-3. On page 24 of your testimony you dispute that the overall parcel post increase is 10.2%, claiming, rather, that it is 8.5% when the new rate discounts are taken into consideration. Please confirm that a mailer who receives a 20% rate discount for new worksharing and dropshipping, but who then must incur an additional 30% increase in costs for mail preparation and transportation, will have effectively received a 10% increase in postal rates. If you cannot confirm, please explain why you disagree with the statement for reasons other than the fact that you may disbelieve the hypotheses.

Response to PSA/UPS-T4-3. I am unable to confirm. A 20% decrease followed by a 30% increase yields a net increase of 4% $[(1 - 20\%) * (1 + 30\%)]$. The revenue per piece figures shown on Table 8 of my testimony are the total revenues per piece by rate category before and after the proposed rate increase. For example, the DSCF rate category will have a total revenue per piece decrease of 20.3% under the Postal Service's proposal. This includes both the impact of the new worksharing discount and all other changes to Parcel Post costs.

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PSA/UPS-T4-4. On page 25 of your testimony, you state that "96% of the volume that will qualify for the prebarcode discount is already being prebarcoded." Please supply any studies UPS has conducted to document your 96% claim, or cite to any studies that have been admitted into evidence in this proceeding if you are relying on studies or data produced by someone other than United Parcel Service.

Response to PSA/UPS-T4-4. I am not a lawyer and cannot address whether documents have been "admitted into evidence in this proceeding." However, I have used only that data which has been presented and relied upon by Postal Service witnesses. The 96% figure was used by Ms. Mayes in her workpapers to derive Parcel Post rates. She obtained the 96% figure from LR-H-163, "Fourth Class Market Research Study."


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PSA/UPS-T4-5. On pages 48 and 49 of your testimony you argue that the Postal Service's proposed attribution of 100% of Alaska air costs to parcel post should be adopted by the Commission and that the Commission should no longer adhere to its previous handling of this category of costs. You further state, however, that if the Commission does continue to adhere to its previous treatment of Alaska air costs that it should, at least, attribute all of the nonbypass parcel post air expense. Please explain your reasons why nonbypass Alaska air costs should be treated differently by the Commission than the bypass air expense.

Response to PSA/UPS-T4-5. Both bypass and nonbypass Parcel Post non-preferential air transportation costs should be attributed. Both bypass and nonbypass mail are assessed rates based on the Parcel Post rate schedule. However, it is my understanding that the bypass program is a special Parcel Post service offering available only in Alaska. This differentiates it from the standard Parcel Post service offering available in Alaska and in the rest of the United States. As such, at the very least all of the standard non-bypass Parcel Post air expense (41.2% of total Alaska non-preferential air costs) should be attributed.

DECLARATION

I, Ralph L. Luciani, hereby declare under penalty of perjury that the foregoing answers are true and correct to the best of my knowledge, information, and belief.




Ralph L. Luciani

Dated: February 10, 1998

CERTIFICATE OF SERVICE

I hereby certify that I have this date served the foregoing document in accordance with section 12 of the Commission's Rules of Practice.



John E. McKeever

Dated: February 11, 1998
Philadelphia, PA